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2015 Annual Network Service Plan

Upper Condamine Bulk

June 2014

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Notes

All financial figures in this NSP are presented in nominal dollars.

Most of the financial figures in the QCA's final report on SunWater's irrigation pricing were presented in real dollars ($2011). To allow comparison to this NSP, convert the QCA final report real dollar figures to nominal dollars by, multiplying the QCA $real figures by the following factors, which are based on the QCA's assumed inflation rate of 2.5% p.a.

Table 1 – Conversion Factors for real $2011 to Nominal Dollars

	2013	2014	2015	2016	2017
Conversion Factor	1.051	1.077	1.104	1.131	1.160

Disclaimer

This report has been produced by SunWater, to provide information for client use only. The information contained in this report is limited by the scope and the purpose of the study, and should not be regarded as completely exhaustive. Permission to use or quote information from this report in studies external to the Corporation must first be obtained from the Chief Executive, SunWater.

Introduction

A recommendation from the 2013-17 review of SunWater's irrigation pricing was for SunWater to produce annual Network Service Plans (NSPs) to help keep customers informed throughout the pricing period. These annual NSPs will focus on both routine expenditure (opex) and non-routine expenditure. In particular, the NSPs will cover:

- past performance for routine opex and non-routine expenditure,
- forecast opex and non-routine for the approaching year, and
- the long-term outlook for material non-routine spend.

SunWater published draft 2015 NSPs for each of 30 Service Contracts during March 2014. This was followed by consultation meetings held throughout regional Queensland over March and April. These discussions involved many customers and other stakeholders at Irrigation Advisory Committee meetings and other forums. Valuable feedback was received from customers that can be found, along with SunWater's responses, at http://www.sunwater.com.au/schemes/nsp/annual-nsp-and-performance-reports.

The feedback has led to changes being made to SunWater's plans for 2015. While the plans for 2015 are now complete, customer feedback is always welcome via email or post using one of the following addresses:

Email: nspfeedback@sunwater.com.au

Post: NSP Feedback
PO Box 15536 City East
Brisbane Qld 4002

Water Data

Table 2 –Water Data

	No. of Customers	Water Entitlements ML
Industrial		0
Irrigation		30,363
Urban		3,332
Other		4
SunWater		98
Total	**99**	**33,797**

QCA Assumed Water Usage for Irrigation	36.6%
QCA Assumed Water Usage for Total	54.1%

Revenue

Table 3 – Revenue[1]

	2013 SunWater Actual $'000	2014 SunWater Budget $'000	2015 SunWater Budget $'000
Irrigation Revenue*	1,155	955	1,009
Irrigation CSO	30	2	0
Industrial and Urban*	945	794	973
Other Revenue	6	2	2
Total Revenue	**2,135**	**1,753**	**1,984**

[1] The 2015 budget figures form the basis for SunWater's SCI submission, which is yet to be agreed with SunWater's shareholding Ministers. While the budgets are not expected to change from here, there is always the possibility of further directions from Government and these may have budget implications.

Routine Expenditure

Table 4 – Routine Operating Expenditure[2]

	2013 SunWater Actual	% of 2013 Target	2014 SunWater Budget	% of 2014 Target	2015 SunWater Budget	% of 2015 Target
	$'000	%	$'000	%	$'000	%
Operations (Excl. Elect.)	726	103%	716	97%	800	108%
Preventative	155	88%	173	94%	167	91%
Corrective	61	84%	70	92%	73	96%
Electricity	104	163%	66	96%	79	108%
Total Routine Expenses	**1,047**	**103%**	**1,025**	**96%**	**1,120**	**105%**

The budget routine spend is 5% above the QCA's target for 2015 however the budget falls to 95% of target when the above-QCA increases in insurance and electricity are taken into account.

Operations

The operations budget in 2015 is 8% above the QCA target, however this is entirely due to the increases in insurance costs being much greater than allowed for by the QCA. Increased premiums followed flood events that have occurred in the past few years in Queensland. This cost over-run is beyond SunWater's control. The budget for operations drops to 95% of the QCA target when the insurance over-run is taken into account.

Preventive Maintenance

Preventive maintenance is budgeted below the QCA's target for 2015.

Corrective Maintenance

Corrective maintenance is budgeted below the QCA's target for 2015.

Electricity

Electricity costs are budgeted at 8% higher than the QCA target in 2015. The QCA had allowed for tariff increases of around 30% over the first three years of the price path whereas actual increases have been around 50%. Cost over-runs due to these price increases are beyond SunWater's control. SunWater will continue to review tariffs each year to identify the best tariff for the expected future operations.

[2] The 2015 budget figures form the basis for SunWater's SCI submission, which is yet to be agreed with SunWater's shareholding Ministers. While the budgets are not expected to change from here, there is always the possibility of further directions from Government and these may have budget implications.

Non-Routine Expenditure

SunWater has developed a whole of life strategy around the replacement and maintenance of its asset portfolio which is based on the concept of optimised life. The key drivers in this approach are the risk and condition of each asset. The current condition of an asset drives an estimate of the future work required to ensure an asset continues to be able to provide the required level of service into the future. SunWater maintains a program of asset inspections and condition assessments which continually updates our knowledge of asset condition. This information feeds into the annual review of the renewals program, the most recent of which was completed in February 2014; items requiring immediate maintenance or replacement are included in the budget for the following year.

While the immediate program for the next year's budget is well defined; the further into the planning timeline, the more uncertain the estimates become. Consequently, the program of works is not a specific forecast of when individual projects are expected to be executed but rather it is portfolio level estimate of works based on the best-available risk and condition information for the service contract as a whole. This information feeds into calculation of the annuity to fund renewals. Having an annuity funding arrangement acknowledges that a long-term view of renewals spend is required to ensure adequate funding and to address issues such as inter-generational equity.

The QCA targets were set against a snapshot of the estimated program of works taken during the 2010-11 year. While this was the best estimate of expected work at the time, there has been significant project churn since this estimate was made. This can mean that, in some cases, the QCA's funding allowance for renewals work does not cover the total expenditure required to maintain asset condition to the required standard. In addition, there are unexpected events, such as floods, that are not allowed for in the QCA's annuity funding allowance. Notwithstanding these points, SunWater aims to limit renewals expenditure to the QCA's targets over the 2013-17 price path in order to manage the annuity balance to reasonable levels.

2015 Non-Routine Budget

The budget non-routine spend for 2015 is shown in the table below, along with the actual spend for 2013 and the budget spend for 2014. There have been some corrective works in this service contract to repair flood damage, however these should be able to be accommodated within the QCA's targets.

Table 5 – Non-Routine Expenditure

	2013 SunWater Actual	% of 2013-17 Target	2014 SunWater Budget	% of 2013-17 Target	2015 SunWater Budget	% of 2013-17 Target
	$'000	%	$'000	%	$'000	%
Annuity Funded						
R&E - Annuity Funded	26		223		424	
Corrective	66		0		0	
Other	0		0		0	
Non-direct	31		114		112	
Annuity Funded Total	**123**	**5%**	**337**	**14%**	**536**	**22%**
Non-Annuity Funded						
R&E - Non-Annuity Funded	0		0		0	
Non-direct	0		0		0	
Total Non-Annuity Funded	**0**	**n/a**	**0**	**n/a**	**0**	**n/a**

The details for the five major projects planned for 2015 are provided below:

Table 6 – Non-Routine Projects 2015

Project Title	Project Scope	2015 Budget ($'000)
Repair pitting and corrosion of conduit lining and bell mouth - LESLIE DAM	The conduits and bellmouth at Leslie dam are in need of repair due to a failure of the coating. At the invert of one pipe, surface penetration of actual metal through pitting was up to 50% of the metal thickness of the pipe. Repairs will either entail grinding out the pitting and refilling by welding or filling with an approved epoxy filler. After the repair, both of the conduits will require a protective coating.	264
Re-profile North Branch - NANGWEE WEIR	Periodically, and based on the condition, SunWater needs to re-profile the North branch as excessive build up of silt starts to impact on the ability to deliver water downstream. We are currently in the situation where we are struggling to meet customer demand for water.	59
Diversion pipeline leakages and ground movement and recommendations for failure prevention and long term water supply - YARRAMALONG RISING MAIN	The large rising main pipeline is 3km long and constructed in black soil. It is believed there is differential move-ment in the black soil between the exceedingly heavy slab the pump station sits on and the relatively lighter pipeline. As this is the only water supply to the scheme, we need to undertake a study into the prevention of catastrophic failure of the pipeline in a flood situation. The study will also include preliminary designs for a solution.	52
Clean out, depth check and pressure test foundation drains as required - LESLIE DAM	As a dam safety requirement, SunWater has a program whereby the foundation drains at each of out dams are cleaned out every 5 years. These drains are not visible and this program	33

	ensures our uplift pressure instrumentation and data remains accurate and reliable.	
Replace some older Selectron time delay relays - LESLIE DAM	SunWater undertook a full options analysis and condition assessment on all electrical and control assets at Leslie dam. The relay system was identified as a critical component with no spare parts, so as part of the risk management strategy, we will replace 3 relays with modern equivalents and hold the removed 3 as emergency spares. The 3 modern equivalent units will require considerable configuring and testing.	29
Other works		99
Total		536

Annuity Balance

The estimated 2014 and 2015 annuity balances are shown below; the annuity income shown has been set by the QCA until the end of the current price path in 2017. SunWater aims to limit the annuity spend to the QCA's targets over the 5-year price path in order to manage the annuity balance to reasonable levels.

The impact of the budget non-routine spend on the annuity balance for 2015 is shown in the following table. The balances for 2014 and 2015 are estimates only at this stage because the final actual spends for 2014 and 2015 will not be known until after each of these years is completed.

Table 7 – Annuity Balances

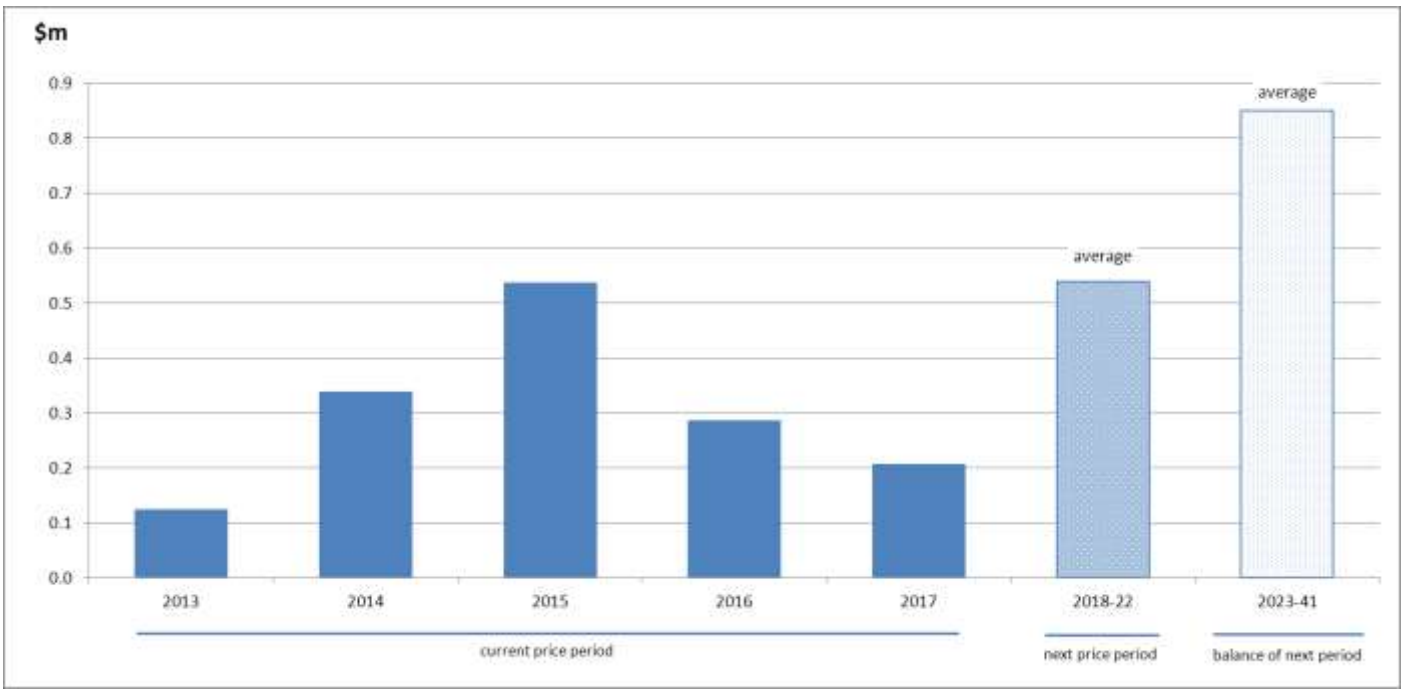
	2013	2014*	2015*	2016	2017
	$'000	$'000	$'000	$'000	$'000
Opening Balance	(1,505)	(1,196)	(1,073)		
Annuity Income	545	549	556	578	583
Spend	(123)	(337)	(536)		
Interest	(113)	(90)	(80)		
Closing Balance	(1,196)	(1,073)	(1,133)		

* All 2014 and 2015 figures are subject to change once actual spend is known.

Overview of Annuity Funded Non-Routine Projects 2013-41

The renewals annuity is calculated over a 20-year planning period; given that the following pricing period ends in 2022, the estimated renewals spend out until 2041 will affect the next pricing review. The estimated renewals expenditure out to 2041 is shown in the chart following.

Figure 1 – Annuity Expenditure 2013-41



All material renewals items out until 2041 are discussed in the sections following. Materiality is defined as >10% of the present value of the period in question. SunWater will develop options analyses for all material items in the annuity calculation planning period. These reports will be tailored to suit project complexity and budget, with detailed options analyses being completed within the current and following 5-year pricing periods and high-level options analyses for the 20-year period beyond the next price path. The materiality tests will be applied each year as part of annual planning process. Given that there will be project churn, some items will no longer require options analysis in future years and new items may join the list.

Material Projects 2015-17

The evenness in the spread of estimated project costs means there are no projects which exceed the materiality threshold for this service contract for the 2018-22 period.

Repair pitting and corrosion of conduit lining and bell mouth - LESLIE DAM

Year: was 2015

Following the observations made during the five yearly inspection conducted in March 2014, it is concluded that these works are no longer required and therefore the project will not proceed. Whilst some coating damage and pitting corrosion was observed in the conduits in 2009, it was found that the corrosion had not increased by the degree assumed prior to the inspection, and repairing and re-lining is not required at this time

Material Projects 2018-22

The evenness in the spread of estimated project costs means there are no projects which exceed the materiality threshold for this service contract for the 2018-22 period.

Material Projects 2023-41

Projects in the program of works for 2023-41 should be viewed as indicative at this stage and will be refined as the next pricing review draws closer.

Replace Cableways - LESLIE DAM

Year: 2029
Current estimate: $2.2m
Options analysis completed: Yes

As some major electrical and control assets were approaching the end of their theoretical life, SunWater undertook a detailed condition assessment on all the electrical control assets at Leslie Dam. Based on the results of this work and primarily due to the stable environmental conditions at Leslie Dam and extended periods without flood, the options analysis came out in favour of extending the expected asset lives of these major electrical assets beyond their originally anticipated life of 35 years.

Part of the conditions for extending the life of the electrical assets saw the options analysis recommend that SunWater introducing a more frequent testing regime along with some precautionary key replacement of critical assets over the next couple of years. After implementing the results of the options analysis into the R&E program, with the addition of these minor works, assets with a replacement cost of around $3 Million can be confidently pushed back some 10 years at this site, rescheduling the project for 2029-31, rather than 2019-21. The full options analysis report is available in Hummingbird Doc #1494587.

Appendix –Total Expenditure by Expense Type

Table 8 – Expenditure for Activity by Type

	2013 SunWater Actual	% of 2013 Target	2014 SunWater Budget	% of 2014 Target	2015 SunWater Budget	% of 2015 Target
	$'000	%	$'000	%	$'000	%
ROUTINE EXPENSES						
Operations						
Labour	194		180		195	
Materials	6		23		10	
Contractors	9		17		25	
Other	146		141		198	
Non-direct	372		356		372	
Operations Total	**726**	**103%**	**716**	**97%**	**800**	**108%**
Preventative						
Labour	53		58		56	
Materials	4		3		3	
Contractors	3		1		2	
Other	1		0		2	
Non-direct	94		111		104	
Preventative Total	**155**	**88%**	**173**	**94%**	**167**	**91%**
Corrective						
Labour	17		15		16	
Materials	7		14		17	
Contractors	2		10		6	
Other	0		0		1	
Non-direct	34		31		31	
Corrective Total	**61**	**84%**	**70**	**92%**	**73**	**96%**
Electricity	**104**	**163%**	**66**	**96%**	**79**	**108%**
Total Routine Expenses	**1,047**	**103%**	**1,025**	**96%**	**1,120**	**105%**

	2013 SunWater Actual	% of 2013-17 Target	2014 SunWater Budget	% of 2013-17 Target	2015 SunWater Budget	% of 2013-17 Target
	$'000	%	$'000	%	$'000	%
NON-ROUTINE EXPENSES						
Annuity Funded						
R&E - Annuity Funded	26		223		424	
Corrective	66		0		0	
Other	0		0		0	
Non-direct	31		114		112	
Total Annuity Funded Non-Routine	**123**	**5%**	**337**	**14%**	**536**	**22%**
TOTAL REGULATED EXPENSES	**1,169**		**1,362**		**1,656**	
Non-Annuity Funded						
R&E - Non-Annuity Funded	0		0		0	
Non-direct	0		0		0	
Total Non-Annuity Funded	**0**	**n/a**	**0**	**n/a**	**0**	**n/a**
TOTAL EXPENSES	**1,169**		**1,362**		**1,656**	